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IV. BUSINESSMEN AND INDUSTRIALISTS

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441 Few industrialists are left in Communist China today, but small-businessmen and manufacturers, who have made up the larger part of China's urban population, continue to exist, although in reduced number. Commerce has always occupied an inferior position in traditional Chinese social strata, while industry is something relatively new and its position in Chinese society has yet to be clearly defined. In general, merchants and manufacturers, who had operated under government restrictions even in pre-Communist days, are cool-headed realists. They are not easily swayed by high-sounding phrases. There have been few occasions when symbols of the state could evoke intimate sentiment among the merchants and small manufacturers except, perhaps, at a time when foreign goods flooded the Chinese market and caused dislocation in the Chinese economy.

Under the Peking regime, businessmen and industrialists as a group fare badly (possibly not much better than rich landowners), and the general mood in industrial and commercial circles is most probably unfavorable toward the government. The Communists have made it clear that small businessmen and manufacturers are only tolerated in the transitional stage of the "New Democracy," and that there will be no room for private enterprise in the socialist society which is the ultimate goal of the Communist

184 regime. Meanwhile, these people have to carry
● 441 a large share of the tax burden and face the stiff competition of state enterprises. There is evidence that the businessmen and manufacturers, accustomed as they are to government interference, are finding the controls imposed by the Communist government much more strict, making it increasingly difficult to manipulate or elude restrictive measures. This general mood of discontent is particularly observable in cities like Shanghai and Ningpo where business and industry had been the backbone of urban prosperity.

If profit has been the most common motive among businessmen and manufacturers, under the present circumstances they have been forced to abandon or at least restrain their ambitions. Some of those who were allowed to do so have made a second choice--that of changing their careers. The most sturdily rooted have escaped the wave of purges by co-operating with the Communist regime. In this connection the Communists have appointed a number of erstwhile influential financiers and industrialists to serve in the government; it may be merely a conciliatory gesture of the Communists to win the support of small business, but it does provide this class of people with one temporary alternative to their lost hope.

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184 An additional factor to provoke dissatis-
441 faction among the merchants is the control on foreign trade. Merchants in East China seaports, who have had the advantage of monopolizing a large portion of the nation's foreign trade, have been deprived of this opportunity because virtually all foreign trade is now handled by the government. Their role has been reduced to that of conducting limited export transactions supervised by the government, and there is no hope that they may be allowed to import Western manufactured goods.

V. WOMEN

562 The customary position of women in China
184 is subordinate to that of men. This tradition was so deep-rooted that it took superhuman courage for the first women to claim their "right"; and the pain of "emancipation" continues under the Communists.

To the "emancipated" belongs responsibility; this is at least theoretically true, and the Chinese women who have exchanged one form of drudgery for another are generally expected to have a degree of political consciousness similar to that of men of equal education and comparable environment. In many cases women prove to be even more "patriotic" than men as a result of the unprecedented government effort to show the women that they, too, can achieve enviable social recognition by a show of "patriotism."

6 INTRODUCTORY

369 177 Shanghai is the centre of our higher civilization and Christian influence for all of China. We are here in the midst of a people proud and prejudiced in favour of their ancient line of things, and what have we introduced amongst them, for their benefit as well as our own? We might well point to the English homes we have formed here. . . How different is this from what we know to be characteristic of Chinese homes? In front also we have these beautiful *hongs* (trading firms) for the transaction of business, and we may especially remark the Supreme Court, distinguished by the just and equitable conduct of legal matters, in striking contrast to what is represented to us as existing in other places. In short, look at the *tout ensemble* of the Settlement — houses and streets lit with gas and electricity, streams of pellucid water flowing in all directions, and sanitary arrangements according to the best medical advice. We have steamers, telegraphs, and telephones in communication with all the world; there are cotton and paper mills and silk filatures of Foreign invention, and last but not least, railways in the north as pioneers of what will yet be found all over China. Law and order are admirably preserved in the midst of 200,000 people at the instance of our own judicial and municipal authorities. . .[2]

369 441 454 177 In the same year, the (British) Commissioner of Customs at Shanghai wrote a trade report for a jubilee volume published by the *Shanghai Mercury* in which he also emphasized the prominence of Shanghai, but in which he expressed rather different views on other matters. The two sets of remarks are interesting to compare when viewed from sixty years later:

Chinese merchants are inclined more and more each year to make Shanghai an emporium for the trade of north China and to use the northern coast and river ports simply as landing places for such goods as may be necessary to supply the immediate needs of their districts. The largest native mercantile houses in China are all represented here. . . Chinese capital is being largely invested, not only in . . . purely native establishments . . . but also in companies established by foreigners and under foreign directorate . . . at least 40 per cent of the shares of some foreign companies are held by Chinese . . . (as well as) a considerable portion of deposits in local banks. . . Chinese capital is invested in foreign-flagged steamers, and of course a large amount is sunk in the shares of the China Merchants Steam Navigation Company. . . Having said so much, it should not surprise anyone if I express the opinion that probably in future Shanghai will furnish no such favourable opportunities

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for the investment of foreign capital as it has done in the past. . . To sum up, I think the future of Shanghai depends on China and the Chinese and their interests and that foreigners would be wise to run with them.[3]

The Commissioner and the missionary were in effect saying the same thing, although in different ways — that the most important thing about Shanghai was its relation to China; and that the city contained the seeds of great change for the entire country.

While it lasted, foreign Shanghai was an exciting and colorful place which travel folders could not exaggerate. It was for instance justly famous as one of the wickedest cities in the world, and we have the testimony of a duke for that as early as 1869. Following his visit to Shanghai, the Duke of Somerset referred to it in the House of Lords in that year as "a sink of iniquity."[4] His words pained especially the missionary residents of the city, and the Chamber of Commerce considered a formal reply through the foreign secretary, but matters never proceeded beyond the local press. The difficulty was that His Grace was right, and the city's own archives proved it. At the Landrenters' meeting in 1864, Sir Harry Parkes, then British consul at Shanghai, stated that of a total of 10,000 Chinese houses in the International and French Settlements, 668 were brothels, "while opium and gambling houses were beyond counting."[5] Seventy years later in 1934, a local Chinese newspaper estimated that Shanghai led the world's cities in prostitution as a specialty: in London, one person in 960 was a prostitute, in Berlin one in 580, in Paris one in 481, in Chicago one in 430, in Tokyo one in 250, and in Shanghai, one in 130.[6] It was indeed a major commercial enterprise in the city, and the fact that so many people earned their livings thereby stymied all attempts to eradicate or mitigate it. A special commission appointed in 1919 to investigate vice in the city recommended that all brothels be removed in five years, hoping that during that time other means of livelihood might be found. Licenses were issued in 1920 with the understanding that all licenses were to be withdrawn in 1925. But the plan was abandoned before the end of the five-year period as a complete failure. An earlier reform attempt also ended in failure when the first American judge of the United States Court for China arrived in

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439 restrictions on the trade at Canton or the opening of further ports
648 to foreign trade. These changes finally came about only as a result of
175 the Anglo-Chinese war of 1841–42. Under the old system at Canton, foreign traders were virtually confined to their trading factories, were forbidden to bring in women or arms, and were allowed in Canton at all only during the trading season, which largely as a result of monsoon winds essential to overseas trade movements by sailing vessels, and particularly favorable to shipping in and out of Canton, lasted from September to April. However, the foreigners thus avoided the uncomfortably tropical summer in Canton. They spent the hot months for the most part in Macao, a remnant of the once extensive Portuguese empire in the East, at a distance of some 75 miles southeast of Canton and on the tip of a hilly and narrow peninsula jutting into the sea, where the breeze seldom failed.

439 Most cramping of the restrictions was that requiring all foreigners
648 to trade only through the Canton merchants' guild, or Cohong, es-
175 tablished with official support in 1720 as the principal instrument for controlling the foreigners, armed with full governmental powers of
441 enforcement of the factory regulations, as well as the monopoly of trade with the foreigners under conditions which yielded them enormous profits. Disputes between Chinese and foreigners arising out of the trade were settled by the Cohong, and protests against abuses could be made by foreigners to the Chinese government only through the Cohong.[2]

439 One of several attempts to break out from this system independently of the Government at Peking was made in 1832, when the British East India Company (shortly before its monopoly of the British trade with China was removed by Parliament in 1834) sent the ship *Lord Amherst* with a commercial mission under Hugh Lindsay (with the Rev. Karl Gutzlaff as interpreter) to request trade privileges from the local officials at other ports on the China coast. Lindsay was refused entry at Amoy, Foochow, and Ningpo, but he obtained an interview with the taotai (Intendant of Circuit, or chief local official) at Shanghai. The taotai informed Lindsay that Canton would remain the only port where foreigners could trade, but Lindsay was enthusiastic about the possibilities of Shang-

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Settlement and Trade

341 347 The foreign population of the city, swollen to 100 in 1843 by the presence of British troops, fell to 50 in 1844, but by 1849 had risen to 175 traders, missionaries, and consular staff, who built the first Settlement roads, following the small winding creeks. The first foreign buildings were mainly godowns (warehouses) and residences combined in one large establishment within two-or-three-acre compounds along the landward side of the Whangpoo Bund. No foreign architects were available, and the plans were drawn by the merchants and modified by Chinese builders to fit local materials and Chinese techniques, so that the resulting structures were of the simplest design.

On the river side of these compounds was a perfectly square bungalow-type building which contained bedrooms, mess hall, and offices. In order to shut out the summer sun and keep the inside as cool as possible, the stamped earth or native sun-dried brick walls were at least three feet thick and plastered or stuccoed in white on the outside, while an open verandah with wide arches ran around the outside of the first two stories. Overhanging roofs shielded the two or three upper stories. In the rear of the compound were usually four or five godowns (for the different trade goods), dwellings for the Chinese assistants, the residence and office of the compradore* (the chief Chinese assistant or agent), and the

• 441 *The compradore was a treaty port institution which epitomized the hybrid economy and business order produced where China and the West met. It originated with the Portuguese in the East Indies in the sixteenth century, who supplied the term. In the China treaty ports, the compradore was usually a banker or merchant who was acquainted not only with the China market and with indigenous business methods and conditions, but had also learned enough from and about the foreigners to be an invaluable aid. He usually had his own Chinese staff, and guaranteed their honesty by his personal and verbal bond, in the Chinese tradition, but in keeping with Western usage also deposited a cash security with his employing firm. He was paid a fixed salary, plus a commission, and was seldom in want of funds. More than once a foreign firm was saved from bankruptcy by the generosity of its compradore. Such men were highly respected by the foreign community as shrewd and scrupulously honest business men, and as friends. Their standing in the Chinese community depended on the prevailing attitude toward the foreigners (see pp. 25–7 above). As a group they were quick and apt students of Western civilization in all of its practical aspects, and from their number was recruited a majority of modern China's political and economic leaders (among them, T. V. Soong and H. H. K'ung) until the final success of the Communist revolution. By about 1930 most

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stables.[20] Within a few years bricks began to arrive in ballast from England, and the brick work prominently displayed in verandah arches facing the Bund provided an indication of the search for Chinese markets for foreign goods in return for China's wealth of tea and silk. This architectural style, common to all the nineteenth-century treaty ports in central and south China, was wittily and fittingly christened the "Compradoric," for it was a necessary blend of Chinese with foreign methods.

The larger foreign firms had two or three partners and eight or ten foreign clerks, plus fifty or sixty Chinese staff (with families), all living in the compound. Among the foreigners there was a notable preponderance of Scots, including the partners of Jardine, Matheson, Ltd., the largest trading firm in Shanghai and known universally as "the muckle house." Apparently the enterprise of these perennial pioneers had conquered Shanghai as it had conquered London. William Jardine, the firm's founder, had been a surgeon on one of the East India Company's ships trading to Canton. He found trading more profitable than healing, and in 1828 persuaded his compatriot James Matheson to join him in his new company at Canton. A Jardine ship carried the first cargo of "free" tea from Canton after the old Company's monopoly was removed by Act of Parliament in 1834. William Jardine was said to keep only one chair (his own) in his office, to encourage his clients to state their business and leave.*

All the large foreign trading firms were divided into six departments: 1. tea; 2. silk; 3. "Manchester goods" (predominantly cotton piece goods); 4. shipping and insurance (understandably a profitable enterprise); 5. land and house agency; 6. "muck and truck" (all the other trade goods, which seldom amounted together to more than 5 per cent of any firm's total goods transactions).† Each

foreign firms in Shanghai found compradores no longer necessary as employed agents. By that time the compradores had taught them almost as much as they had unwittingly taught the compradores.

* See Greenberg, British Trade, for a detailed account of the history and operations of this and other private firms in the Canton trade, based on contemporary letters and business records.

† Until 1890, overseas exports in this category were primarily hides, leather, bristles, horsehair, China grass, and art objects; imports, aside from opium and textiles, were largely limited to hardware, cotton yarn (for Chinese household and small-scale industry), and machinery.

SIX

The Political Factor

The opening to foreign trade of ports in China outside Canton required for the first time purely commercial cities of metropolitan size. Within the treaty ports, a blend of Western and Chinese business methods developed under the dominance of foreign commerce and the protection of foreign order which provided entrepreneurs with security of investments and freedom from bureaucratic control for the first time in the history of China. This new economic activity was largely created out of the traditional economy of China, still pre-industrial but highly developed, and it was natural that in each treaty port the presence of foreign traders and their capital attracted Chinese middlemen and merchants to the foreign settlements, where commerce under Western rules and legal protection was more profitable than under traditional conditions elsewhere.

Provided with a merchandizing outlet, the trade of the Yangtze basin flowed in increasing volume through Shanghai and created there a rising structure of Western-style commerce. Risk capital for commercial investment, earned both in the new market of Shanghai and in traditional enterprises in the hinterland, notably in land, became concentrated in the city, where opportunity and security were uniquely combined. For the first time, safe and productive investments were available to capital which under the traditional system was almost exclusively, and unproductively, invested in land. Capital and trade were mutual catalysts in this situation, and when foreign capital was permitted to invest in industry in the treaty ports after 1895, Chinese capital was soon attracted to this further profitable outlet. The marked concentration of China's trade through Shanghai after 1860 had also tended to foster the accumulation of both Chinese and foreign capital in the city, which after 1895 was available for

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454 investment in industry. The political independence of the foreign settlements was a key factor in all of this, as well as in the development in the city of banking, exchange, and an international money market, all profiting from financial enterprises by no means limited to the city's trade and industry but conducted under the advantages of foreign law and of free circulation of foreign and Chinese currencies.

633 441 Trade, industry, and finance thus were given an original impetus and were helped to maintain their mutual and cumulative effect of attraction by Shanghai's political status. Location has, however, been the predominant factor in the growth of the city at every period, and distinguished Shanghai from other treaty ports which, with the same economic opportunity derived from their political status, were rapidly outdistanced by Shanghai. Hong Kong's location was equally favorable at the start (before north China and the Yangtze valley were opened to foreign trade) and the city had the further early advantage of insularity, where full British sovereignty gave to trade the security an entrepôt requires. If political status were the primary factor, Hong Kong would have displaced all its rivals. Hong Kong's trade is still second only to Shanghai's, but following the usual pattern, as commercial development proceeded in the wake of treaties opening new ports and granting new rights to foreigners, a mainland site became increasingly advantageous. At the same time, the center of trade shifted inevitably to its natural focus in the Yangtze basin after the collapse of the artificial Canton system.

A vigorous controversy among foreign and Chinese businessmen in Shanghai over the economic importance of the city's political status was touched off in 1931. The Shanghai Municipal Council (at that time composed of five British, two American, two Japanese, and five Chinese members), had for a decade received increasingly explicit requests from the Shanghai Chinese and from the national government to consider means of returning to China full sovereign rights over the entire city, including the abandonment of extraterritoriality. In 1930 the Council invited the Hon. Mr. Richard Feetham, a judge of the supreme court of the Union of South Africa, to appraise the situation as an impartial investigator and to make detailed recom-

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mendations "with a view to assisting them in formulating some constructive plan for the future of the Foreign Settlement which, while giving full consideration to the aspirations of the Chinese people will at the same time afford reasonably adequate protection to the great commercial and business interests which have been developed in Shanghai."[1]

In the course of his investigations, Justice Feetham consulted virtually every prominent foreign businessman and business organization, including those which had been demanding the rendition of foreigners' special rights, legal and territorial. Justice Feetham asked these individuals and organizations to give their several opinions on "the nature and extent of the business interests concentrated in Shanghai, particularly in the foreign Settlement, and the main causes which have led to such concentration."[2] Whether or not Feetham intended this as a leading question, the replies from foreigners were almost unanimous in stressing that the political status of the foreign settlements had been the only factor of importance in the growth of the city.

Their argument, as far as it went, was convincing. They pointed out that trade and investment could prosper only under orderly conditions, and that the security offered to business by the foreign settlements was not only physical but legal, embodied in courts of law free from political interference and upholding the sacredness of contract. They neglected to point out that the law, originally administered to each national group by its own consular officials who were often themselves members of the business community as well, and later for the larger national groups by specially appointed judges from the home country, was frequently read to the particular advantage of each national group, at the expense of other foreigners and of their Chinese competitors or customers. There was nevertheless protection, by the due process which obtained, against seizure of property, extortion, excessive taxation, illegal practices, and other phenomena common in contemporary China, where military requisitions, arbitrary government regulations, dues and fines, official and unofficial "squeeze," and wholesale expropriation were the daily risks of the businessman.

Even the Chinese enterprises outside the settlements profited

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from the special rights of foreigners by sharing the protection of foreign ships and troops against threatened occupation of these areas by Chinese forces in times of civil disorder or rebellion. Under Chinese control, the foreigners argued, public utilities would quickly deteriorate, and illegal and disastrous business operations would disrupt commerce and industry. The enormous investment in land within the settlements, legally protected by deeds and free from expropriation, was a prominent source of new capital for investment in the city's expanding economy. Title deeds to real estate in the settlements, registered with the foreign consuls, were important as security for loans to both foreign and Chinese entrepreneurs. Foreigners cited the gradual drop in interest rates in the Settlements since 1843, a healthy condition for business, and attributed it to the security attendant on foreign political control, comparing it with interest rates elsewhere in China often exceeding 50 per cent per annum. Some of the statements from foreigners cited "the superior geographic location of Nanking" (an assertion which they did not substantiate and which hardly can be upheld), arguing that it was nevertheless "backward" solely because it lacked the advantages of security on which Shanghai had grown.

There were two dissenting voices among the foreigners. Germany had lost her special rights in China, including extraterritoriality, in 1915, and the statement of the German Chamber of Commerce[3] gave first importance to geographic location in the rise of Shanghai, taking the view that its political status had been a minor factor. "In our opinion, the geographical situation is the vital point . . . The position of Shanghai as a commercial centre greatly depends on the situation in the interior." Most of the city's imports are transshipped to the interior, and most of its exports originate there. This trade is "not protected by Shanghai's special administration, still there is an ever-increasing total of trade figures, a phenomenon which evidently is not entirely due to the status of Shanghai."[4] It was natural that the German businessmen should prefer to see the special treaty advantages of the other foreign merchants removed, but the recovery of German trade at Shanghai after 1919, despite the handicap of dealing on equal terms with the Chinese,

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was quick, and by 1930 it amounted to a larger percentage of the business of Western nationals than it had in 1913.[5]

Professor C. F. Remer, a noted student of Chinese economic problems then on the faculty of St. John's University in Shanghai, contributed the only impartial and certainly the best informed opinion on the questions raised by Justice Feetham.[6] He allowed the early importance of political (and thus economic) security in favouring the concentration of capital and commerce in Shanghai, "but it does not follow that the abolition of extraterritoriality would destroy Shanghai as a financial center. China's trade would still be financed. The degree of difficulty would depend on the Chinese government regime, and here the Chinese bankers, merchants, and industrialists would exert great influence." Emphasizing that China appreciated the geographic advantages and importance of Shanghai and would not let them lapse, he pointed out that "what would go primarily would be the present free opportunities for foreign investment and foreign financial operations, and possibly the concentration of silver and specie in the Settlement, which would limit speculation and general financial operations, but not necessarily seriously. Financial dislocation could easily be avoided by intelligent Sino-Foreign cooperation, and China's financial center would remain at Shanghai."

Statements from Chinese civic and business organizations ranged from polite Chinese phrases claiming that "the problem is too intricate for an immediate or complete answer" to outright demands for the immediate rendition by the foreigners of all special rights. Most of them played down the importance of political and economic security in the growth of the city, or maintained that it could adequately be provided under full Chinese sovereignty, and all of them stressed the natural advantages of Shanghai as the key factor. Justice Feetham's final recommendations were that immediate rendition would be fatal to the economic life of the city, and that although it must come eventually in order to satisfy Chinese national aspirations, it should be delayed until the rule of law and constitutional government was accepted in China.[7] This was of course a conveniently ambiguous phrase, and no provisions were made for determining when the conditions had been met. It remains to be

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633 441 seen how the surrender of special privileges in China by all of the nations having treaty relations with China (completed by 1944), and the full sovereignty of the national government of China over the whole of Shanghai will affect the economic development of the city.

Jealous of their threatened treaty rights, which undoubtedly gave them as foreigners an advantage in business and investments over the Chinese, the foreign business community of Shanghai overstated the importance of the political factor in the rise of the city, especially by implying that the special status of the Settlements and their foreign residents worked equally to the interests of Chinese and foreigners. Primarily, they failed to evaluate correctly the locational factors which, once the Yangtze basin was opened to foreign trade by treaty agreements, played the predominant role in the growth of modern Shanghai. A city of this order of magnitude and volume of trade could not have and did not develop anywhere else in China, and this condition was in large part responsible for the mushroom growth of Shanghai as the one dominant commercial center for most of the country.

The security provided by foreign control was an important stimulus to economic development at a critical time, during the early years of the foreign settlements when capital began to concentrate there. In this respect it had the effect of a protective tariff for the infant Western-type economy born into a strange land. Once this economy had matured and acquired its own momentum (based increasingly on Chinese participation according to Western economic methods), the tariff was characteristically retained although it was no longer necessary to the healthy functioning of the economy and now operated merely to protect special sectors (in this case the foreign businessmen), which could continue to operate on a non-competitive basis. It is not necessary to deny that removal of the tariff would cripple "special interests" to maintain that the net effect of removal on the overall functioning and prosperity of the economy would be slight.

633 441 177 A new group of Chinese businessmen had learned Western commercial methods from their intercourse with foreigners in the treaty ports. Shanghai was the leading school, and by the turn of

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the century, foreigners in business there were in general limited to the heads of firms and their executive assistants. Chinese were responsible in the foreign firms for the bulk of buying and selling and for the essential groundwork of financing in addition to maintaining their own trading firms. Private Chinese entrepreneurs took a prominent part in the growth of industry in the city after 1895, and modern Chinese banks modeled on Western methods rivaled the foreign banks after 1920 as the leading Shanghai financial institutions. Strong foreign, especially Japanese, competition, profiting from treaty advantages, was more responsible than Chinese lack of experience or ability for the fact that the Chinese did not dominate the originally foreign economic life of the city more completely than they did. Chinese capital for investment was a problem, but it was increasingly being produced by Shanghai's own economy, and capital could be borrowed abroad without requiring foreign control over its investment.

It could be argued that while Chinese methods in business and industry were in many cases different from those of the West, they were better adjusted to the particular conditions of the Chinese economy and society and if given free competitive opportunity would be at least equally successful.* In any case, it could not be assumed that if left in sole control of the complex economy of Shanghai which they had helped to build, the Chinese would allow it to run down to any significant extent. Conscious planning to relocate industry is another matter.

The prolonged controversy leading up to Justice Feetham's investigations included a special number of the *China Weekly Review* in 1926 devoted to "Greater Shanghai" in which the following argument for rendition appeared: "Shanghai would have been a great city had there never been a foreigner in the place. It would continue to be a great city even if the foreigners should vacate their modern buildings and go home."[8] While the first sentence is an overstatement of the case, the second sentence is undoubtedly accurate.

* Carl Crow, *Four Hundred Million Customers* (1937), and *Foreign Devils in the Flowery Kingdom* (1940), an American businessman of nearly thirty years' experience in Shanghai, tends to take this view.